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STATE FOR WHA/AND
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TAGS: EFIN ECON EAID PGOV BL
SUBJECT: IMF AGREEMENT ENDS

¶1. Summary: Bolivia's Standby Agreement with the International Monetary Fund (IMF) expired on March 31, and the GOB has indicated that it does not want to sign a new agreement with the Fund. The lack of a Fund agreement could jeopardize donations from multilateral and bilateral institutions and undermine fiscal restraint by the GOB, causing the Bolivian Central Bank President concern. A Fund team will conduct its annual Article 4 review of Bolivia in May, during which its future relationship with Bolivia will be better defined. Although Bolivia is currently in decent macroeconomic shape, Bolivian Finance Ministry contacts are worried that increased government spending will result in large gaps in the 2006 budget. End summary.

Bolivia's IMF Agreement Expires

¶2. Bolivia's Standby Agreement with the IMF, which began in April 2003 and was renewed twice, expired on March 31, 2006, without a final review by an IMF team which would have enabled Bolivia to draw on the last portion of its IMF loan. Bolivia has had some type of relationship with the Fund almost continuously since 1986. According to press reports, the GOB plans to wash its hands of the Fund. Development Planning Minister Carlos Villegas was quoted in the press on April 2 stating, "Today for the first time in our history, Bolivia spoke as an equal with the Fund, and told it we are not going to sign letters of intention."

¶3. IMF resident representative, Esteban Vesperoni, told us on April 3 that the IMF had not received official notification to this effect from the GOB but acknowledged that Finance Minister Luis Arce had told him informally that Bolivia did not need the Fund right now. Vesperoni told us he agreed with Arce, as Bolivia did not currently have a balance of payments problem. He cautioned, however, that the absence of a Fund agreement could restrict other donors' ability to lend to Bolivia and would make both donors and the Bolivian Central Bank "uncomfortable." The President of the Central Bank stated to the press on April 2 that forgoing a Fund agreement was risky, as it could result in a lack of fiscal discipline and less budgetary support and multilateral

financing.

Future Relationship with the Fund

¶4. The GOB agreed to a visit by a six or seven person Fund team in early May to conduct an "Article 4" review, which Vesperoni explained was an annual review, not related to a particular agreement, that was required for all Fund members. He said that the future of the Bolivian-IMF relationship would be discussed at that time. He speculated that the GOB was attempting to distance itself from the Fund in order to avoid giving a signal to the Bolivian public that the IMF is interfering in the drafting of its National Development Plan, due to be released in late April. He thought that after the Plan was completed, the GOB might be more open to discussions with the Fund. He explained that the Fund could offer several options that did not involve the IMF Board, which has the ability to sign formal, binding agreements with conditions. These could include an "intensified surveillance" program, under which monitoring teams would analyze Bolivia every three to six months, or a somewhat more formal "staff monitoring program." Such programs would allow the IMF to remain abreast of developments in Bolivia and would send positive signals to the international donor community, without involving formal agreements or credits. Vesperoni said that a monitoring program would be sufficient for Bolivia for the next six months, but was less confident about Bolivia's long-term needs.

Monetary and Fiscal Impacts

¶5. Vesperoni did not see any "dark clouds" on the medium-term horizon with respect to monetary policy (unless a potential staff shake-up at the Central Bank changed the current direction), but said that fiscal policy was a bit more complicated. According to contacts, the Bolivian Treasury currently has a USD 500 million funding gap for 2006. Other Finance Ministry contacts have also expressed their concern to us that new government policies, particularly in the areas of health, education, and minimum wage, would result in large gaps in the 2006 budget.

¶6. Comment: The GOB's public comments regarding the end of the IMF agreement are part of a larger government strategy to highlight Bolivian sovereignty and rid the GOB of foreign influence (except from Cuba and Venezuela). The government intends to eliminate consultants in the GOB and have all GOB staff paid out of resources from the national treasury, instead of by NGOs, multilateral donors, or foreign governments, even if it means increasing the fiscal deficit. According to press reports, Minister Villegas said that the National Development Plan would "ensure" economic stability, but that the focus of the plan would not be stabilization. He added that the GOB would adopt a monetary policy that would reduce interest rates and that public investment would be a high priority. Given these comments, Bolivia's macroeconomic future could be in jeopardy. End comment.
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